“Unified Approach” - An OECD Proposal

What is the issue?

- The Organisation of Economic Co-operation and Development (OECD) has released a consultation paper proposing changes in the rules for taxing Internet giants such as Facebook, Apple, Google, Netflix, etc.
- The proposal is called “Unified Approach” and it will shift the standard of taxation from physical presence to sales in a particular market.

What is OECD?

- The Organisation for Economic Co-operation and Development (OECD) is an international economic organisation.
- Their goal is to **shape policies** that foster prosperity, equality, opportunity and well-being for all.
- It was founded in **1961** by 18 European nations, and the United States and Canada to stimulate economic progress and world trade.
- It now has **36 member** countries that are mostly high-income, free-market economies.

Why new taxation laws?

- The ongoing global battle over how to tax the digital economy is yet to reach resolution.
- As of now, “highly digitalised businesses” can operate remotely and have high profits.
- Many companies have moved their source of profits to countries with low tax rates, such as Ireland.
- The proposal would give new taxing rights to countries with many users of such business models.
- India is among countries that rely on a significant economic presence model.
- If the new OECD proposal is accepted, the companies will have to pay more taxes in the markets in which they sell more.

How the new rule will be designed?

- The key to the proposal is that the “new nexus” would be based on sales.
- “Nexus” in international tax - Refers to the operating presence in a country that makes a company taxable.

- The new nexus rule would address this issue by being applicable in all cases where a **business has a significant involvement** in the economy of a market jurisdiction **irrespective of its level of physical presence** in that jurisdiction.
- The proposal suggests designing the new rule and determining significant involvement in the jurisdiction by assigning a revenue threshold in the market.
- It considers a **750-million-Euro** revenue threshold.
    1. This would allow the rule to encompass those who enter the market through a distributor.
    2. It also means the rules would apply not just to the large tech multinationals, but any firm with a presence online.
- The proposal focuses on large consumer-facing businesses, broadly defined as businesses that,
    1. Generate revenue from supplying consumer products or
    2. Provide digital services that have a consumer facing element.
- This definition will be articulated further, but its recommendation exempts resource extraction companies like oil companies.

What's next?

- The proposal leaves many **questions unanswered** - in particular, how much profit should be reallocated to the country.
- The choice of this amount will ultimately be the result of a **political agreement** that needs to be acceptable to all members of the Inclusive Framework, small and large, developed and developing.
- Stakeholders can submit their responses by November 12, 2019.
- Officials hope a new tax framework could be agreed upon by early 2020.
- G20 finance ministers may discuss this proposal in the near future, and countries in favour of new laws could begin negotiations thereafter.

Source: The Indian Express

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